

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PENDLETON COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Pendleton County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$4,877 from the prior year, resulting in excess fees of \$28,674 as of December 31, 2008. Revenues increased by \$32,076 from the prior year and expenditures increased by \$36,953.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 6, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$857,907

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 9, 2009 on our consideration of the Pendleton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Pendleton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

July 9, 2009

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants		\$	978
State - Kentucky Law Enforcement Foundation Program Fund			20,467
State Fees For Services:			
Finance and Administration Cabinet	\$	7,270	
Cabinet for Health and Family Services		<u>10,843</u>	18,113
Fiscal Court			86,967
County Clerk - Delinquent Taxes			18,673
Commission On Taxes Collected			225,739
Fees Collected For Services:			
Auto Inspections		4,090	
Accident and Police Reports		1,163	
Serving Papers		42,181	
Carrying Concealed Deadly Weapon Permits		<u>3,942</u>	51,376
Other:			
School Resource Officer		21,770	
10% Add-on Fees		25,206	
City of Falmouth Police Department		168	
Cell Phone		788	
Knock Family Foundation Donation		3,200	
Insurance Reimbursement		5,235	
Miscellaneous		<u>1,324</u>	57,691
Interest Earned			3,355
Borrowed Money:			
State Advancement		127,351	
Bank Note		<u>25,000</u>	<u>152,351</u>
Total Revenues			<u>635,710</u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputy's Gross Salaries	\$ 71,934
Part Time Gross Salaries	6,000
Other Gross Salaries	22,887
Overtime Gross Salaries	11,453
Transport Salaries	63,504
KLEFPF Salaries	15,500
School Resource Officer	42,986
Range Instructor	1,500
Bailiff Salary	6,140

Employee Benefits-

Employer's Share Retirement	4,911
Phone Allowance	2,771

Contracted Services-

Advertising	410
Vehicle Maintenance and Repairs	12,970

Materials and Supplies-

Office Materials and Supplies	4,099
Uniforms	5,117

Auto Expense-

Gasoline	30,080
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Other Charges-

Conventions and Travel	5,187
Dues	470
Postage	889
Office Phones	2,145
Radio	436
CCDW	1,395
Mobile Phones	3,891
Fiscal Court Fees	9,380
Buffalo Trace Narcotics Task Force	6,145
Ammunition/Weapons	8,442
Computer/Copier	2,304
Accreditation	2,213
Prisoner Transport	375
Miscellaneous	2,640

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 CHARLES PEOPLES, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Office Equipment	\$ 1,673	
Vehicles	<u>32,150</u>	\$ 381,997
Debt Service:		
State Advancement	127,351	
Notes	<u>25,430</u>	<u>152,781</u>
Total Expenditures		<u>534,778</u>
Net Revenues		100,932
Less: Statutory Maximum		<u>70,496</u>
Excess Fees		30,436
Less: Training Incentive Benefit		<u>1,762</u>
Excess Fees Due County for 2008		28,674
Payment to Fiscal Court - December 31, 2008		<u>28,674</u>
Balance Due Fiscal Court		<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.5 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Pendleton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Pendleton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 6, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$857,907

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Grant

The Sheriff's office received federal grant proceeds from the Kentucky State Police Governor's Highway Safety Program in the amount of \$978 for reimbursement for overtime expenses incurred from participating in the statewide law enforcement mobilization.

Note 5. Additional Bank Accounts of the Pendleton County Sheriff

A. Asset Forfeiture Account

The office of the Sheriff maintains an asset forfeiture account. This account consists of funds obtained through drug forfeitures and seizures. The beginning balance was \$303. There were receipts of \$611 during 2008. The Sheriff expended \$552 to purchase equipment for the Sheriff's office. As of December 31, 2008, the ending balance was \$362.

B. Canine Unit Account

The office of the Sheriff maintains a canine unit account. This account consists of funds obtained through donations and proceeds are used to support the canine unit. The beginning balance of this account as of January 1, 2008 was \$708. Receipt totaled \$14 in interest during the year. Disbursements during the year totaled \$587. As of December 31, 2008, the ending balance was \$135.

C. Cop and Court Account

The office of the Sheriff maintains a cop and court account. This account consists of funds obtained through fundraiser proceeds to be used with the annual shop with a cop program. The beginning balance of this account as of January 1, 2008 was \$2,111. Receipts during the year were \$15,837. Disbursements during the year totaled \$13,545. As of December 31, 2008, the ending balance was \$4,403.

D. Bankruptcy Account

The office of the Sheriff maintains a bankruptcy account. This account consists of funds awarded the Sheriff's office from court proceedings dealing with individuals filing for bankruptcy. The beginning balance of this account as of January 1, 2008 was \$22. Receipts during the year totaled \$1 from interest. There were no disbursements. As of December 31, 2008, the ending balance was \$23.

Note 6. Bank Note

The Pendleton County Sheriff's office took out one bank loan during calendar year 2008. The bank loan was entered into on February 4, 2008 for \$25,000 in order to purchase a 2008 Ford Crown Victoria. Three payments totaling \$25,430 were paid through April 28, 2008. This included \$430 in interest.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Bertram, Pendleton County Judge/Executive
The Honorable Charles Peoples, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Pendleton County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated July 9, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Pendleton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 9, 2009

COMMENT AND RECOMMENDATION

PENDLETON COUNTY
CHARLES PEOPLES, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Most employees of the Sheriff's office collect receipts. The bookkeeper prepares the daily bank deposit and posts items to the receipts ledger. The bookkeeper prepares the quarterly financial report and bank reconciliations that are agreed to the receipts and disbursements ledgers. The bookkeeper also prepares checks for all disbursements, signs checks, and posts to the disbursements ledger. The Sheriff does not require dual signatures on checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. The Sheriff should implement and document that he is performing the following steps to strengthen internal controls:

- The Sheriff should periodically compare the daily bank deposit to the receipts ledger. Any difference noted should be reconciled. The Sheriff should document this by initialing the bank deposit and receipts ledger.
- The Sheriff should review the quarterly financial report and compare amounts reported to the receipts and disbursements ledger.
- The Sheriff should periodically complete the bank reconciliation.
- Dual signatures should be required on all checks, with the Sheriff being one of the required check signers.

Sheriff's Response: No response.

